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FINANCIAL MANAGEMENT

Interior's Efforts to Reconcile Indian Trust Fund Accounts and Implement Management Improvements

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Mr. Chairman, Mr. Vice Chairman, and Members of the Committee:

We appreciate the opportunity to be here today to discuss our work on the Department of the Interior's management of the Indian trust funds. My statement

- summarizes our assessment of the results of Interior's efforts to reconcile Indian trust fund accounts,
- discusses the usefulness of a legislated settlement process for resolving disputes of account balances, and
- provides information on the status of Interior's trust fund management improvement initiatives which are needed to ensure that the trust fund accounts will be accurate in the future.

In summary, as discussed in our May 1996 report,¹ while Interior has brought its reconciliation project to a close, tribal accounts were not fully reconciled due to missing records and the lack of an audit trail in Interior's automated accounting systems. In addition, the January 1996 report package that Interior provided to each tribe on the reconciliation results did not explain or describe the numerous changes in reconciliation scope and methodologies or the procedures that had been planned but were not performed. Therefore, the limitations of the reconciliation were not evident. Also, due to cost considerations and the potential for missing records, individual Indian trust fund accounts were not included in the reconciliation project.

Tribes have expressed concerns about the scope and results of the reconciliation process. By April 30, 1996, only 2 tribes had accepted their account reconciliation results, 3 tribes had disputed their results, and the remaining 275 tribes had not decided whether to accept or dispute their account balances. If Interior is unable to resolve tribes' concerns, a legislated settlement process could be used to resolve disputes about tribal account balances. Our September 1995 report² contained draft legislation outlining a settlement process, which we prepared in response to a request from your Committee and the House Committee on Resources to initiate discussions on options for resolving disputed balances.

While Interior has initiated several management improvement actions over the past 3 years to correct the long-standing problems that gave rise to the

¹Financial Management: BIA's Tribal Trust Fund Account Reconciliation Results (GAO/AIMD-96-63, May 3, 1996).

²Indian Trust Fund Settlement Legislation (GAO/AIMD/OGC-95-237R, September 29, 1995).

concerns over the accuracy of tribal trust fund accounts, the improvements will take several years to complete. Additionally, the current trust fund management and accounting systems and controls remain inadequate to ensure accurate trust fund accounting and asset management. Unless Interior corrects its long-standing trust fund management, accounting, and control weaknesses, it may be faced with additional costly reconciliations and settlements in the future.

The appointment of the Special Trustee for American Indians was an important step in establishing high-level leadership at Interior for Indian trust fund management. The Office of the Special Trustee was implemented in February 1996. The Special Trustee has recently developed a concept paper which outlines needed trust fund management improvements. This concept paper will need to be expanded to include various options and alternatives and their associated costs and benefits and ultimately developed into a comprehensive strategic plan.

Ultimately, solving Interior's trust fund management problems will require comprehensive planning, management commitment across all Indian trust program offices, and additional resources.

Background

Several Interior agencies are responsible for carrying out the Secretary's Indian trust responsibilities. These agencies include the Bureau of Indian Affairs (BIA) and its Office of Trust Responsibilities (OTR), which is responsible for resource management and land and lease ownership information; BIA's 12 Area Offices and 85 Agency Offices; the Bureau of Land Management (BLM) and its lease inspection and enforcement functions; and the Minerals Management Service's (MMS) Royalty Management Program, which collects and accounts for oil and gas royalties on Indian leases.

In addition, an Office of the Special Trustee for American Indians was established by the American Indian Trust Fund Management Reform Act of 1994. This office, implemented by Secretarial Order in February 1996, has oversight responsibility over Indian trust fund and asset management programs in BIA, BLM, and MMS. The Order transferred BIA's Office of Trust Funds Management (OTFM) to the Office of the Special Trustee for American Indians and gave the Special Trustee responsibility for the financial trust services performed at BIA's Area and Agency Offices.

At the end of fiscal year 1995, OTFM reported that Indian trust fund accounts totaled about \$2.6 billion, including approximately \$2.1 billion for about 1,500 tribal accounts and about \$453 million for nearly 390,000 Individual Indian Money (IIM) accounts. The balances in the trust fund accounts have accumulated primarily from payments of claims; oil, gas, and coal royalties; land use agreements; and investment income. Fiscal year 1995 reported receipts to the trust accounts from these sources totaled about \$1.9 billion, and disbursements from the trust accounts to tribes and individual Indians totaled about \$1.7 billion.

OTFM uses two primary systems to account for the Indian trust funds—an interim, core general ledger and investment system and BIA's Integrated Resources Management System (IRMS). OTR's realty office uses the Land Records Information System (LRIS) to record official Indian land and beneficial ownership information. BLM maintains a separate system for recording mineral lease and production information and MMS maintains separate royalty accounting and production information systems.

Our assessment of BIA's trust fund reconciliation and reporting to tribes is detailed in our May 1996 report, which covered our efforts to monitor BIA's reconciliation project over the past 5 and one-half years. As you requested, we also assessed Interior's trust fund management improvement initiatives. In order to do this, we contacted the Special Trustee for American Indians, OTFM officials, and OTR's Land Records Officer for information on the status of their management improvement plans and initiatives. We also contacted tribal representatives for their views. We focused on Interior agency actions to address recommendations in our previous reports and testimonies and obtained information on new initiatives.

Trust Fund Reconciliation Results

BIA recently completed its tribal trust fund reconciliation project which involved a massive effort to locate supporting documentation and reconstruct historical trust fund transactions so that account balances could be validated. BIA provided a report package³ to each tribe on its reconciliation results in January, 1996. Interior's prototype summary reconciliation report to tribes shows that BIA's reconciliation contractor verified 218,531 of tribes' noninvestment receipt and disbursement

³The report package presented the results of the reconciliation procedures performed by BIA's contractor for fiscal years 1973 through 1992, and BIA's reconciliations for fiscal years 1993 through 1995. It included unreconciled account statements and a schedule of proposed adjustments for each of the years covered by the reconciliation, and a transmittal letter which described the information provided and BIA's plans to meet with tribes to discuss the reconciliation results.

transactions that were recorded in the trust fund general ledger. However, despite over 5 years of effort and about \$21 million in contracting fees, a total of \$2.4 billion for 32,901 receipt and disbursement transactions recorded in the general ledger could not be traced to supporting documentation due to missing records.

In addition, BIA's reconciliation report package did not disclose known limitations in the scope and methodology used for the reconciliation process. For example, BIA did not disclose or discuss the procedures included in the reconciliation contract which were not performed or could not be completed. Also, BIA did not explain substantial changes in scope or procedures contained in contract modifications and issue papers, such as accounts and time periods that were not covered and alternative source documents used. Further, BIA did not disclose that the universe of leases was unknown or the extent to which substitutions were made to the lease sample originally selected for reconciliation.

In order for the tribes to conclude on whether the reconciliation represents as full and complete an accounting as possible, it was important that BIA explain the limitations in reconciliation scope and methodology and the procedures specified under the original contract that were not performed or were not completed. At a February 1996 meeting in Albuquerque, New Mexico, where BIA and its reconciliation contractor summarized the reconciliation results, tribes raised questions about the adequacy and reliability of the reconciliation results.

The American Indian Trust Fund Management Reform Act of 1994 required that the Secretary of the Interior report to congressional committees by May 31, 1996, including a description of the methodology used in reconciling trust fund accounts and the tribes' conclusions as to whether the reconciliation represents as full and complete an accounting of their funds as possible. The Secretary's May 31, 1996, report indicates that 3 tribes have disputed their account balances, 2 have accepted their account balances, and 275 tribes have not yet decided whether to accept or dispute their account balances.

Legislated Settlement Process

If Interior is not able to reach agreement with tribes on the reconciliation results, a legislated settlement process would prove useful in resolving disputes about account balances. Our March 1995 testimony⁴ suggested

⁴Financial Management: Indian Trust Fund Accounts Cannot Be Fully Reconciled (GAO/T-AIMD-95-94, March 8, 1995).

Trust Fund Management Improvement Initiatives

that the Congress consider establishing a legislated settlement process. Our September 1995 report provided draft settlement legislation for discussion purposes. The draft legislation would provide for a mediation process and, if mediation does not resolve disputes, a binding arbitration process. The proposed process draws on advice provided us by the Federal Mediation and Conciliation Service and the rules of the American Arbitration Association. Both of these organizations have extensive experience in the use of third party facilitators to provide alternative dispute resolution. The proposed process offers a number of benefits, including flexibility in presentation of evidence and, because the decision of the arbitrators would be binding and could not be appealed, a final resolution of the dispute.

BIA's reconciliation project attempted to discover any discrepancies between its accounting information and historical transactions that occurred prior to fiscal year 1993. However, unless the deficiencies in Interior's trust fund management that allowed those discrepancies to occur are corrected, such discrepancies could continue to occur, possibly leading to a need for future reconciliation efforts. Since 1991, our testimonies and reports on BIA's efforts to reconcile trust fund accounts have called for a comprehensive strategic plan to guide future trust fund management and ensure that trust fund accounts are accurately maintained in the future. While OTFM and OTR have undertaken a number of corrective actions, progress has been slow, results have been limited, and further actions are needed.

OTFM, Interior, and OTR have initiated several trust fund management improvements during the past 3 years. These include

- acquiring a cadre of experienced trust fund financial management staff;
- issuing trust fund IIM accounting procedures to BIA field offices, developing records management procedures manuals, and issuing a trust fund loss policy;
- implementing an interim, core general ledger and investment accounting system and performing daily cash reconciliations;
- studying IIM and subsidiary system issues;
- reinstating annual trust fund financial statement audits; and
- initiating improvements to the Land Records Information System.

GAO Observations

Although OTFM made a massive attempt to reconcile tribal accounts, missing records and systems limitations made a full reconciliation impossible. Also, cost considerations and the potential for missing records made individual Indian account reconciliations impractical. A legislated settlement process could be used to resolve questions about tribal account balances.

Three major factors—lack of comprehensive planning, lack of management commitment across the organization, and limited resources—have impeded Interior's progress in correcting long-standing trust fund management problems. When the trust fund reconciliation project was initiated, it was envisioned that by the time it was completed, adequate organizational structures, staffing, systems, and policies and procedures would be in place to ensure that trust fund accounts were accurately maintained in the future. However, piecemeal planning and corrective actions continue, and Interior still lacks a departmentwide strategic plan to correct trust fund management problems.

In addition, while it is critical that all parts of the organization are committed to supporting and implementing trust fund management improvement initiatives, some BIA field offices are continuing to follow improper and inconsistent accounting practices. Given the continuing difficulty in managing a trust program across approximately 60 BIA offices, it is important to consider streamlining options such as centralization of collections, accounting, and land title and recordkeeping functions.

Finally, Interior and BIA officials told us that they lack the resources to implement many needed corrective actions. However, the development of a comprehensive strategic plan that addresses interrelated functions and systems, identifies costs and benefits of options and alternatives, and establishes realistic milestones is a necessary first step. A departmentwide plan would provide the basis for management and congressional decisions on requests for resources.

Mr. Chairman and Mr. Vice Chairman, this concludes my statement. I would be glad to answer any questions that you or the Members of the Committee might have.